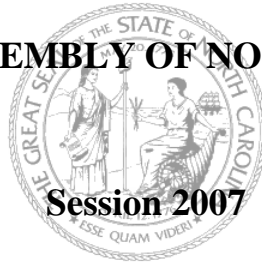


# GENERAL ASSEMBLY OF NORTH CAROLINA



## FISCAL ANALYSIS MEMORANDUM

[This confidential fiscal memorandum is a fiscal analysis of a draft bill, amendment, committee substitute, or conference committee report that has not been formally introduced or adopted on the chamber floor or in committee. This is not an official fiscal note. If upon introduction of the bill you determine that a formal fiscal note is needed, please make a fiscal note request to the Fiscal Research Division, and one will be provided under the rules of the House and the Senate.]

**DATE:** May 7, 2008

**TO:** Revenue Laws Study Committee

**FROM:** Rodney Bizzell  
Fiscal Research Division

**RE:** Tax on Short-term Heavy Equipment Rentals

### FISCAL IMPACT

|   | Yes (x)   | No ( )            | No Estimate Available ( ) |                   |                   |
|---|---|-------------------|---------------------------|-------------------|-------------------|
|   | <u>FY 2008-09</u>   | <u>FY 2009-10</u> | <u>FY 2010-11</u>         | <u>FY 2011-12</u> | <u>FY 2012-13</u> |
| <b>REVENUES:</b>  |   |                   |                           |                   |                   |
| General Fund  | <b>*No General Fund Impact*</b>   |                   |                           |                   |                   |
| Local Governments   | <b>*Gross receipts tax rate is revenue neutral – individual jurisdictions may experience some changes in revenue – see assumptions and methodology*</b> |                   |                           |                   |                   |
| <b>PRINCIPAL DEPARTMENT(S) &amp; PROGRAM(S) AFFECTED:</b> Local governments.  |   |                   |                           |                   |                   |
| <b>EFFECTIVE DATE:</b> Gross receipts taxes can become effective January 1, 2009. Property tax on heavy equipment rentals is repealed effective July 1, 2009. |   |                   |                           |                   |                   |

### **BILL SUMMARY:**

The bill repeals the property tax on heavy equipment owned and offered for short-term rental or lease by a person whose principal business is the short-term lease or rental of heavy equipment at retail, and enacts in its place local option county and city gross receipts taxes on the short-term heavy equipment rentals.

**ASSUMPTIONS AND METHODOLOGY:**

Five major heavy equipment rental companies provided information on annual gross receipts and property tax payments to allow Fiscal Research to calculate a revenue-neutral gross receipts tax rate. The revenue-neutral rate is the rate, when applied to gross receipts from the rental of heavy equipment, will yield the same amount of revenue as the current property tax. The tax is a local option for cities and counties; therefore, the total amount of revenue generated will be less than the amount currently received by the property tax if some jurisdictions decide not to levy the tax.

The companies providing information represent approximately 70% of the heavy equipment rental market in North Carolina. The revenue-neutral tax rate is calculated by dividing the property tax paid on heavy equipment rentals by the rental revenue received. The revenue-neutral rate is 1.75%. The rate is divided into a 1.1% rate for counties and a 0.65% rate for municipalities. The breakdown of the tax rate for cities and counties is based on the ratio of tax rates for counties versus cities in major urban centers where the majority of heavy equipment rental companies are located.

The bill requires heavy equipment rental companies to make gross receipts tax payments to local governments quarterly. The payments are due by the last day of the month following the end of each quarter. Local governments may begin levying the gross receipts tax on January 1, 2009.

Finally, even though the tax rate is revenue-neutral, the share of the total revenue received by individual local governments may change. This is because the tax will be distributed to cities and counties based on where the equipment is rented. The current property tax is paid based on where the equipment is located on January 1 of each year.

**SOURCES OF DATA:** NC Department of Revenue, North Carolina Heavy Equipment Dealers

**TECHNICAL CONSIDERATIONS:** None